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Analysis of Business Trends Plus Selected Financial Indicators

Mexican Renaissance

While much of the industrial world continues to experience lethargic business conditions, one bright spot in the global economic picture is Latin America. With virtually every country in the region initiating fundamental economic reforms, including privatization of subsidy-gobbling state-owned industries, Latin America has returned to the growth track, partially reversing the painful malaise of the so-called "lost decade" of the 1980s. And, with only one or two exceptions, nowhere has progress been more evident than in Mexico. The three-pronged policy combination of privatization, tax reform and trade liberalization is paying handsome dividends in terms of quicker growth, slower inflation and improving government finances. Recognition of these developments, and the likelihood of an eventual North American Free Trade Agreement (NAFTA) encompassing the United States, Canada and Mexico have unleased a wave of foreign investment in Mexico. Although such problems as urban underemployment and rural poverty persist, Mexico is now being touted as a paragon of reform virtue, a role model for the countries of Eastern Europe and elsewhere seeking to shed the legacy of state-sponsored stagnation.

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As the reform process has accelerated, so, too, has Mexico's economic rebound. According to the Bank of Mexico, inflation-adjusted gross domestic product growth averaged nearly four percent annually during the past three years, far above the one percent average annual growth rate registered during the external debt-plagued 1981-88 period. In one sense, the resumption of faster economic growth simply picks up where the rapid six and seven percent growth rates of the 1960s and 1970s left off. But there the similarity ends. Whereas the rapid growth of earlier decades initially centered around the establishment of a heavily subsidized industrial structure largely insulated from the winds of international competition, followed by the official sanctioning of a consumption boom bought and paid for by increasing amounts of external debt—which eventually peaked at the punishingly lofty level of nearly $110 billion in 1987—this time around the private sector is leading the economy's expansion while the role of the state dwindles.

To be sure, the government has sought to ensure just such a result by opening formerly exclusive preserves of the public sector to private interests and, through tax reform and subsidy elimination, weaning private industry away from its dependence on government largesse. Although the privatization of telecommunications and banking, for example, has received widespread publicity, these industries are only two of many; whereas the government had owned nearly 1,200 firms at the end of 1982, this number had been pared to under 260 by mid-1991. What is more, with subsidies cut and tariffs slashed, private firms had no other option but to enhance efficiency or cease operations. So far, the private sector has responded to the emerging opportunities with gusto; gross fixed investment, the motor powering recent growth, has been soaring at "real" double-digit rates while construction activity in such areas as industrial and tourism infrastructure has expanded at similar speeds.

Policy Prudence

Lying at the heart of today's investment boom has been an unswerving effort to create a stable climate for making business decisions, and priority number one has been lowering the rate of inflation—which had been advancing at a nearly 180 percent year-over-year pace as recently as early 1988. Correctly deciding that triple-digit rates of inflation were anathema to sustained growth, Mexican policymakers commenced the process of putting the government's financial house in order and reining in the torrid growth of the money supply. On the budget front, this has meant transforming a chronic budget deficit equivalent to nearly ten percent of gross domestic product in the early 1980s into what could be Mexico's first ever budget surplus in the current calendar year—notwithstanding increased spending on education and a variety of social programs.

Although proceeds from privatization contributed significantly to the higher revenues which have produced the brighter fiscal picture, so, too, has long-overdue tax reform. Despite lower rates for both individuals and businesses, tax collections have vaulted higher due to fewer loopholes, a broadened tax base and vibrant business conditions. In fact, these same robust business conditions have complicated the cen-

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tral bank's efforts to rein in the money supply. With private borrowing on the upswing, and a river of foreign capital flowing into the country—nearly $21 billion since the beginning of 1989—progress in staunching rapid money growth has been grudging. Nonetheless, inflation has continued to slow, and is currently running at about one percent a month, making the goal of a single-digit annual inflation rate realizable within the next year.

Trade Balance Concerns

If there is a growing cause for concern, it is the dramatic widening of the trade and current account deficits which has accompanied Mexico's renaissance. Quicker growth and trade liberalization have produced a surge in imports which exports have simply been unable to keep pace with. Nor has it helped that the United States, which absorbs over 80 percent of Mexico's exports, has been experiencing lackluster growth for years. Mexico's trade deficit more than tripled last year, widening from $3 billion in 1990 to $11.1 billion in 1991. This, in turn, pushed the current account deficit to $13.3 billion last year, the biggest gap since 1981, the year prior to the onset of the external debt "crisis".

However, notwithstanding the naysayers' fears, the implications of trade trends today are light-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/27/92)	148,755	- 752	- 47,973
New York City (6/3/92)	27,163	+ 131	- 5,114
Commercial Paper (6/3/92)	539,486	+ 107	- 3,333

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/27/92)	283,804	- 1,286	- 28,550
New York City (6/3/92)	49,289	- 101	- 6,586

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/27/92)	999,140	- 4,561	- 42,395
New York City (6/3/92)	159,811	- 183	- 13,898

Financial Markets

	Friday 6/12/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.73%	- .01	- 1.99
180-Day Bills†	3.85	- .07	- 2.17
Longest Bills†	4.11	- .08	- 2.22
Recent Issues:			
5⅛s 5/31/94	5.02	- .08	
6⅛s 5/31/97	6.48	- .07	
7½s 5/15/02	7.28	- .02	
8s 11/15/21	7.85	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (6/11/92)	6.52%	- .05	- .67
Blue List Total ($ Million)	$1,413	- $ 6	- $161
30-Day Visible Supply ($ Million)	$3,726	- $1,877	+ $571
Total	$5,139	- $1,883	+ $410
Corporates:			
Moody's Aa Composite (6/11/92)	8.57%	- .01	- .75
30-Day Visible Supply ($ Million)	$ 625	- $ 769	+ $425
Stocks:			
Dow-Jones Averages:			
Industrials	3,354.36	- 44.33	+353.91
Transportation	1,346.23	- 41.66	+115.09
Utilities	214.07	+ 2.69	+ 3.87
65 Stocks	1,182.93	- 17.62	+103.26
N.Y.S.E. Composite Index	225.51	- 2.37	+ 16.17
N.Y.S.E. Avg. Daily Vol. for Week (000's)	195,564	- 33,325	+41,283

*34% Taxable equivalent 9.88%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/12/92	Week Ago
Overnight	3.75%	3.88%
1 month	3.94	4.00
3 month	4.00	4.06
6 month	4.19	4.09
1 year	4.63	4.69

FOREIGN EXCHANGE SPOT RATES New York Opening (6/12/92)	Currency Per U.S. $	Week Ago
Belgium	32.39	32.88
Canada	1.1929	1.1973
France	5.2979	5.4120
Germany	1.5725	1.5995
Italy	1190.78	1208.50
Japan	126.60	127.50
Mexico	3117.75	3113.75
Netherlands	1.7725	1.8015
South Korea	803.56	801.67
Switzerland	1.4270	1.4645
Taiwan	24.46	24.67
U.K.*	1.8535	1.8245

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (6/12/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.4%	-17.1%

years away from those of a decade ago. The fact is that capital goods are among the fastest growing import items; these are needed to establish new industries and modernize old ones, a task made more urgent with the approach of NAFTA. Of the $7 billion increase in imports last year, nearly one third were capital goods and only eight percent were consumer goods; the rest were intermediate goods. In fact, rather than enjoying a short-lived consumption boom, Mexico's external accounts bear a striking resemblance to those of fast-growing Spain and Portugal, where widening external deficits have accompanied the sweeping modernization of everything from factories to farms to telecommunications, part and parcel of their getting ready to meet head-on the competition from other, richer European Community members.

And, for reasons similar to those of Spain and Portugal in carefully managing their exchange rates, a hefty maxi-devaluation of the Mexican peso seems unlikely and unnecessary. Not only would it compromise the government's inflation rate objectives but, perhaps more important, it would lift the cost of precisely those imports on which Mexico's competitive future depends. Of course, one should never say never but, with $17½ billion in foreign exchange reserves, never seems a long way away.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/10/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	280.223	+ 1.276	+26.272
Loans to Depository Inst.	.133	- .037	- .215
Float	.170	- .336	- .095
Total Reserve Bank Credit	309.928	+ 1.193	+18.783
Treasury Deposits with Federal Reserve Banks	4.916	- .623	- .242
Currency in Circulation	310.270	+ .340	+19.282
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	276.678	- .941	+28.981
Member Bank Reserves:	**6/10/92**		
Total Reserves Held	57.301	+ .386	+ 7.154
Excess (Deficiency)	.482	- 1.012	- .254
Net Free Reserves	.330	- 1.007	- .132
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (6/1/92)	958.6	+ 9.8	+ 12.0
M2 (6/1/92)	3,466.2	- 1.0	+ 1.8
M3 (6/1/92)	4,162.0	- 2.5	+ 0.1
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/12/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.63%	3.73%	3.93%
* Federal Agencies	3.83	3.90	4.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.24	4.24	4.77
Negotiable Time CDs Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.95	4.00	4.35

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.75%	Jul.	3.77%
15- 29 days	3.82	Aug.	3.77
30- 59 days	3.83	Sep.	3.79
60- 89 days	3.83	Oct.	3.82
90-179 days	3.86	Nov.	3.84
180-239 days	3.95	Dec.	3.85
240-270 days	3.95		

‡ Industrial Paper–Prime			
30- 89 days	3.83%	†Federal Funds Effective Rate	3.63%
90-120 days	3.83		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92	$ 5,818	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92	$ 4,897	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92	2.4	0.4	- 2.5
Change in Consumer Prices*	May '92 n	1.2%	2.4%	2.4%
Change in CHEM Cost of Living Index*	May '92 n	1.2%	1.2% r	2.4%
Change in Producer Prices*	May '92 n	4.8%	2.4%	2.4%
Civilian Employment (Thousands of Persons) †	May '92 n	117,656	117,675	116,730
Unemployment as % of Civilian Labor Force †	May '92 n	7.5%	7.2%	6.8%
Personal Income*	Apr '92 n	$ 4,990	$ 4,988 r	$ 4,792
Leading Indicators Composite Index (1967=100) †	Apr '92 n	148.9	148.3 r	141.9
Industrial Production Index (1977=100) †	Apr '92	108.2	107.6	105.5
Net Change in Consumer Installment Credit †	Apr '92 n	- $ 3.82	- $ 0.99 r	- $ 1.18
U.S. Merchandise Trade Balance †	Mar '92	- $ 5.82	- $ 3.29	- $ 4.07
Plant and Equipment Expenditures*	3rd Q'92 n	$ 557.5 (a)	$ 558.5 (a)	$ 527.9
Private Housing Starts (Thousands of Units)*	Apr '92	1,115	1,344	978
New Construction Expenditures*	Apr '92 n	$ 418.8	$ 420.0 r	$ 407.0
Total Business Inventories †	Apr '92 n	$ 816.1	$ 815.7 r	$ 817.9 r
Total Business Sales †	Apr '92 n	$ 548.0	$ 548.9 r	$ 532.8 r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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